



how we came to be

CARD SME BANK
ANNUAL
REPORT
2016

about the cover

As CARD Mutually Reinforcing Institutions reach its 30th year in service, the growing group of people- and development-oriented institutions celebrates its remarkable milestones that contribute to the rich ongoing history of CARD MRI in empowering Filipino women and families. As the group pursues its vision of being a world-class leader in microfinance and community-based social development undertakings, CARD MRI had been through many ups and downs but was able to face them with its consistent, purposeful, and forward-looking brand of service.

The butterfly is a representation of CARD MRI's metamorphosis: its transformation from a small social development foundation into a group of mutually reinforcing institutions that have made positive impact to the lives of its more than four million clients. Inside the butterfly's wings are a few of the many momentous events that brought CARD MRI to where it is now and that will continuously inspire the organization to reinvent itself while remaining anchored to its purpose and keeping in mind the people it serves.





vision

CARD SME Bank, Inc. supports CARD MRI's vision statement as a Group of Mutually Reinforcing Institutions that is dedicated to empower the poor by upholding the core values of competence, family spirit, integrity, stewardship, humility, culture of excellence, and simplicity. As one of the institutions that comprise the CARD MRI and in support of its mission, CARD SME envisions building a sustainable financial and capacity building institution owned and led by socially-and-economically challenged families by providing integrated Microfinance, Small and Medium Enterprise (MSME) and social development (credit with education, leadership with a heart, innovative community programs) services to an expanding membership base by organizing and empowering women and their families; and continue upholding the highest standards of stewardship of financial, human, and institutional resources.

mission

To provide banking services especially designed for landless rural workers by bringing bank services to community sites and accommodating the least financial transactions within their affordability

To provide collateralized and non-collateralized loans to non-bankable but viable microfinance and SME projects

To grow the bank's SME lending to become the pre-eminent SME Bank in the Philippines to be able to reach more SME beneficiaries



The Metamorphosis

As a member institution of CARD MRI, our goals of eradicating poverty and serving the nation have inspired us to reach remarkable milestones in empowering Filipino women and families. We commemorate how history has shaped us - through the challenges that we have surpassed and the accomplishments that we have achieved - into a passionate and hardworking institution.



DELIVERING A

Promise

ARISTEO A. DEQUITO

President and CEO, CARD SME Bank, Inc.

Looking back, when the former Rural Bank of Sto. Tomas (RBST) was set against the backdrop of economic headwinds and market volatility, its owners decided to sell majority of its shares of stocks to CARD MRI. It was July 2007 when CARD assumed full ownership of RBST and implemented comprehensive actions that would result to long-term competitive advantage. In 2011, the Bangko Sentral ng Pilipinas (BSP) approved the motion for CARD SME Bank to be classified as a thrift bank. CARD SME Bank's strategic objective was to transform the "graduating microentrepreneurs" of CARD, Inc. and CARD Bank, Inc. into SMEs (small and medium

enterprises) and provide a platform for these clients whose businesses are growing and to bring them to the next level of banking service. With RBST's microfinance operations as our anchor and a new strategic objective as our direction, we have integrated CARD MRI's mission to alleviate poverty and build a stronger nation.

PRODUCTIVE YEAR

The previous year was promising and it inspired us to roll up our sleeves this 2017 and get down to business. We added five new branches and 14 microbanking offices or MBOs in 2016 bringing our total branches to 20, including head office, and 101 MBOs. We will continue to widen our reach nationwide as we establish more



RBSTI sold majority of the shares of stocks to CARD MRI.

2002

1962

Rural Bank of Sto. Tomas (RBST), Inc., the 14th rural bank in the province of Batangas started its operations through providing loan facilities to rural producers for their various productive endeavors.

2007

CARD MRI assumed ownership of RBSTI in July. This move was to support the transition of clients from CARD, Inc. and CARD Bank, Inc., by empowering them through continuous access to financial resources and non-financial services. CARD MRI's social mission of poverty alleviation has been integrated into RBSTI's microfinance operations.

“Being established as a thrift bank, we can offer wider range of loans to our clients who were transitioned to us by CARD Financial Institutions. This helped us in keeping them as members of CARD MRI. We believe that it’s a two-way relationship, they did not have a difficult time looking for another bank to support them, and in return, we were able to keep them close.”

- Cynthia Baldeo
Executive Vice President
& COO



The Bangko Sentral ng Pilipinas approved CARD SME Bank to be classified as a thrift bank.

RBSTI inaugurated the opening of its new Head Office in San Pablo City, Laguna and started operating under its new name, CARD SME Bank, Inc., while retaining Sto. Tomas, Batangas as one of its branches.

2011



branches and MBOs in the short and medium-term range. As for the number of clients, we have served 407,323 individuals marking a 45% increase from the previous year. Loans disbursement stood at PhP7,285,855,058 posting an increase of 35%. Likewise, loans outstanding registered a remarkable 50% increase ending at PhP2,740,940,058. Deposit level recorded at PhP1,899,640,836, a 54% increase from the previous year. Repayment rate inched-up to 99.29% slightly higher than the previous year.

We recognize the role of technology in improving our processes. This year, together with CARD MRI Information Technology, we are developing a core banking system (CBS) to fully integrate all CARD SME branches to which we plan to implement in 2017. With the new CBS, our clients can expect improvement in our processes as we deliver more efficient and effective services. Another major project that we are undertaking is the ATM facility. We have installed in three branches: Sto. Tomas, Calamba and our head office in San Pablo. We are targeting end

of 2017 for the complete roll-out to the other branches. Another project that we are excited about is the development and offering of a mobile banking facility to our clients. Planned to be available in the third quarter of 2017, this facility will provide convenience, safety and security, and less travel time to our clients for their bank transactions. At the comfort of their homes, they can inquire their account balances, transfer funds, pay loan, and even pay their bills.

Our main goal of expanding SMEs all over the country still holds true. Currently, our loan portfolio mix stands at 70:30 (microfinance to SME) and we set an internal target to reverse this in the medium-term.

BECOMING LEAN AND FOCUSED

CARD SME Bank identified different opportunities and accelerated the growth of our client segments through various products and services. The institution went beyond business loans and began offering consumer and housing loans. Recognizing the needs of our

agriculture sector, we introduced “agri-finance” – a financial assistance intended for farmer-clients. As farming and agriculture businesses are seasonal, CARD SME Bank customized flexible payment terms that brought us corporate accounts and increased our network among people and organizations.

Established as a thrift bank, we offer a wide array of loans to clients who were transitioned to us by other financial institutions of CARD. In turn, making them stay as CARD MRI members. The key element is this two-way relationship that we purposefully built. Our clients need not have a difficult time looking for another bank as we can already provide them what they need. As a result, CARD SME Bank became their bank of choice.

Underpinning our approach to conducting our business and achieving our aspirations is our commitment to nation building and empowering the country’s economy. As we help our clients in expanding their businesses, we create employment and help the community by providing products and services they need. This



CARD SME Bank opened new branches in Batangas City, Sta. Rosa City and Cavite City in 2012 and in Calamba City, Balayan, Batangas and Dasmaringas City in 2013.

2012



CARD SME Bank was Bangko Sentral ng Pilipinas' second place awardee for the Financial Inclusion category. The award recognizes BSP's partners who demonstrate tangible results in terms of breadth and depth of outreach to the previously unbanked or underbanked.

2013

“Right from the beginning, our institution aspires to make a distinct mark in the banking industry. In 2013, we embarked on several initiatives reinforcing our core competence as a full-service thrift bank and continued to do our part, being one of the institutions under CARD MRI, in nation building by delivering microfinance loans to less fortunate members who want to gain financial freedom.”

- Mary Jane A. Perreras,
Former CARD SME Bank President & CEO





As part of its thrust of making the Philippines a more financially-inclusive country, CARD SME Bank opened its first Mindanao branch located in Brgy. Calumpang, General Santos City.

2016

“We have transitioned millions of our clients to formal banking. Yes, we already realized what we envisioned thirty years ago but we have to keep going, we still have to reach more socioeconomically challenged families in the country. Armed with our thrust and the experiences we have championed, we opened branches outside our comfort zone.”

- Aristeo A. Dequito

2015

The International Finance Corporation (IFC), a member of the World Bank Group, signed an advisory agreement with CARD SME Bank to help expand its credit service for small farmers and rural entrepreneurs. Under the agreement, IFC was to advise four branches of CARD SME Bank on expanding agricultural loans to farmers.

allows us to create a value chain where both financial and non-financial products and services come from CARD MRI institutions. This highlights one of CARD MRI's strengths - the institutions complementing each other to provide a synergy that is truly unique in CARD MRI.

CREATING A STRONG BRAND

With the addition of five branches strategically located in various provinces in the country, 2016 was a year of building a strong brand. Through these branches, we make our products and services easily accessible to those who need them the most.

One of the successful activities we had this year to bring our products and services closer to our clients is "The Negosyo Talk Series" or TNTS. It is a series of business fora we hold quarterly wherein we invite entrepreneurs as resource speakers to share their experiences, knowledge, and expertise in their respective business fields as well as to provide inspiration among our clients. We also invite subject matter experts from various government agencies like DTI and non-government organizations like Philippine Center for

Entrepreneurship under its flagship program, Go-Negosyo to provide technical knowledge in managing businesses. In 2015, we brought TNTS to Hong Kong encouraging the OFWs to start their own business in preparation when they go back here and stay for good. We plan to do this every year in other countries where there are OFWs.

Major activities were also done in 2016 such as the streamlining of internal processes to provide accurate and timely response to clients, realignment of officers and staff members assignment as well as sending them to various capacity-building trainings.

All these activities are geared towards strengthening our SME lending operations.

PREPARING THE FUTURE ENTREPRENEURS

For the past 30 years, CARD MRI has been successful in its pursuit to help the marginalized attain self-advancement and community development. CARD SME Bank, though still in its infancy, has accepted its part and took the responsibilities brought about by this pursuit. We intend to continue the path CARD MRI

by leveraging on our strengths and available resources to fully support SMEs.

As part of our continuing efforts to support SMEs, one of our short-term plans is to establish an SME Academy. In collaboration with our very own CARD-MRI Development Institute (CMDI), this academy will offer business related degree courses focusing on entrepreneurship and management. We are very excited in this program and looking forward to sharing our knowledge and expertise in business management as well as in SME banking. Through the implementation of this endeavor, we aim to produce innovative and creative entrepreneurs in the future.

The clients, being at the center of our operations, have always been our motivation. The services we offer are based on their ever-evolving needs. Our business is structured to help us serve our clients better. The heart of CARD SME Bank is aligned with the culture and values of CARD MRI; with commitment, proper education, and genuine service, we can go further and provide better value for the people we serve.

Accomplishments of CARD SME BANK



LOAN OUTSTANDING
PhP 2,740,940,059



DEPOSITS
PhP 1,899,640,835



CLIENTS AND SAVERS
394,049



CLIENTS SERVED
389,351



ACTIVE CLIENTS WITH LOAN
283,369



HEAD OFFICE
1



BRANCHES
19



**OFFICE UNIT/
MICROBANKING
OFFICE**
274



STAFF
1,360



REPAYMENT RATE
99.29%



**FINANCIAL
SELF-SUFFICIENCY**
118.81%



**OPERATING
SELF-SUFFICIENCY**
122.41%

Areas of Coverage

Head Office
San Pablo City, Laguna

CALABARZON Region IV-A

Sto. Tomas Branch
Sto. Tomas Batangas
Tanauan City, Batangas
Malvar, Batangas
Talisay, Batangas
Laurel, Batangas

Cavite City Branch
Cavite City
Noveleta, Cavite
Kawit, Cavite
Rosario, Cavite
Bacoor, Cavite

Lipa City Branch
Lipa City, Batangas
Mataas na Kahoy, Batangas
Balet, Batangas

Ibaan, Batangas
Padre Garcia, Batangas
Rosario, Batangas
Cuenca, Batangas
San Jose, Batangas

Balayan Branch
Balayan, Batangas
Calaca, Batangas
Calatagan, Batangas
Lian, Batangas
Nasugbu, Batangas
Tuy, Batangas

Batangas City Branch
Batangas City
Lobo, Batangas
Bauan, Batangas

San Pascual, Batangas
Mabini, Batangas

Tagaytay City Branch
Tagaytay City, Cavite
Silang, Cavite
Mendez, Cavite
Naic, Cavite
Indang, Cavite
Alfonso, Cavite
Tanza, Cavite
Maragondon, Cavite

Sta Rosa City Branch
Sta Rosa City, Laguna
Cabuyao, Laguna
Biñan, Laguna

Dasmariñas City Branch
Dasmariñas City, Cavite
Imus, Cavite
Carmona, Cavite
General Trias, Cavite
Trece Martires, Cavite
GMA, Cavite

Calamba City Branch
Calamba City, Laguna

Lemery, Batangas
Lemery, Batangas
Taal, Batangas
Agoncillo, Batangas
San Luis, Batangas

San Pedro Branch
San Pedro, Laguna

CENTRAL LUZON - Region III

San Jose Del Monte City Branch
San Jose Del Monte City, Bulacan
Marilao, Bulacan
Meycauayan, Bulacan
Norzagaray, Bulacan
Sta Maria, Bulacan

Subic Branch
Subic, Zambales
Olongapo, Zambales
Castillejos, Zambales
San Narciso, Zambales
San Marcelino, Zambales

Balanga City Branch
Balanga City, Bataan
Orion, Bataan
Orani, Bataan
Mariveles, Bataan
Dinalupihan, Bataan

Bagac, Bataan
Morong, Bataan
Samal, Bataan
Hermosa, Bataan
Pilar, Bataan
Limay, Bataan

ILOCOS REGION - Region I

Dagupan City Branch
Dagupan City, Pangasinan
Sta Barbara, Pangasinan
Calasiao, Pangasinan
Binmaley, Pangasinan

Vigan City Branch
Vigan City, Ilocos Sur
Caoayan, Ilocos Sur

BICOL REGION - Region V

Naga City Branch
Iriga, Cam Sur
Nabua, Cam Sur
Baao, Cam Sur

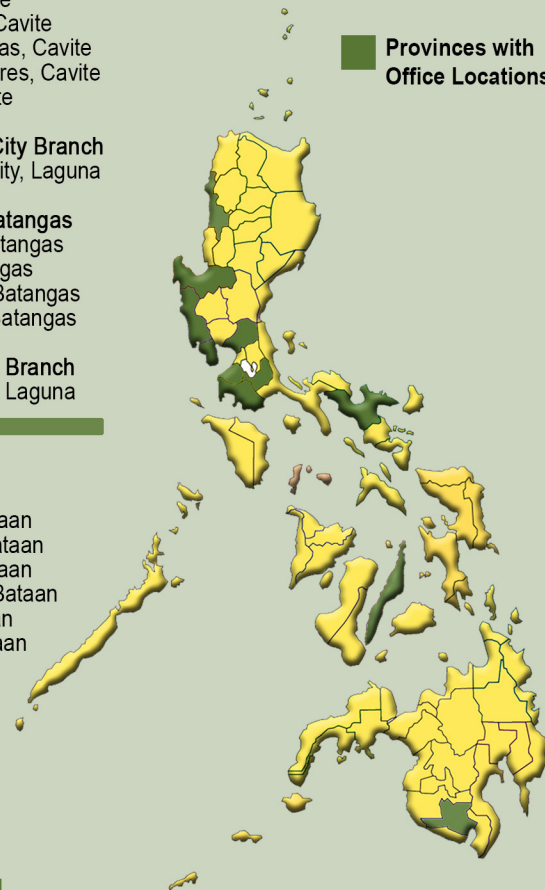
VISAYAS – Region VII

Lapu Lapu City Branch
Lapu Lapu City

MINDANAO- Region XII

General Santos City Branch
General Santos City

Provinces with
Office Locations





This year has been filled with blessings and great things for CARD SME Bank and our members. We have been successful enough to open five new branches nationwide and found a new home when our main office was transferred to its new building in San Pablo, City.



Apart from these accomplishments, our Negosyo Talk Series was also a vivid success for we have conducted a number of trainings and workshops, which was attended by our clients; through these, we were able to share knowledge on how to properly manage their own businesses.



As we move on to another year, we look forward to achieving more victories with our members and clients. We will continue to live up to our promise that we will always provide them with products and services beyond their expectations.





The Board of Directors



Board of Directors

DR. JAIME ARISTOTLE B. ALIP
Chairman

MS. MARY JANE A. PERRERAS
Vice Chairperson

MS. MILAGROS C. ROJAS
Treasurer

MS. FLORDELIZA L. SARMIENTO
Member

MR. ARISTEO A. DEQUITO
Member

MS. MA. ELENA M. RUIZ
Member

MS. MARLENE B. ALGIRE
Independent Member

DR. GILBERTO M. LLANTO
Independent Member

ATTY. WILFREDO B. DOMO-ONG
Independent Member

DR. EDZEL A. RAMOS
Corporate Secretary

ATTY. EDGARDO R. MARILIM
Legal Counsel

MR. BENITO R. PAGASPAS
Consultant





The Management Committee



Management Committee

MR. ARISTEO A. DEQUITO
President and CEO

MS. CYNTHIA B. BALDEO
Executive Vice President and COO

MS. ANNA LORRAINE J. MAUR
Assistant Vice President - Finance

MS. CHERRY A. BONCAJES
Assistant Vice President – Operations

MR. MANOLO M. MARTINEZ
Head-Marketing and Product Development

MR. DENNIS O. DIMACULANGAN
Assistant Vice President - Credit Risk

MR. JEFFREY M. RONDINA
Chief Compliance Officer

MR. ALLAN D. DIMAANO
Senior Program Manager

MS. ANITA F. RAPER
Senior Regional Director

MS. NORALYN D. SILVESTRE
Regional Director

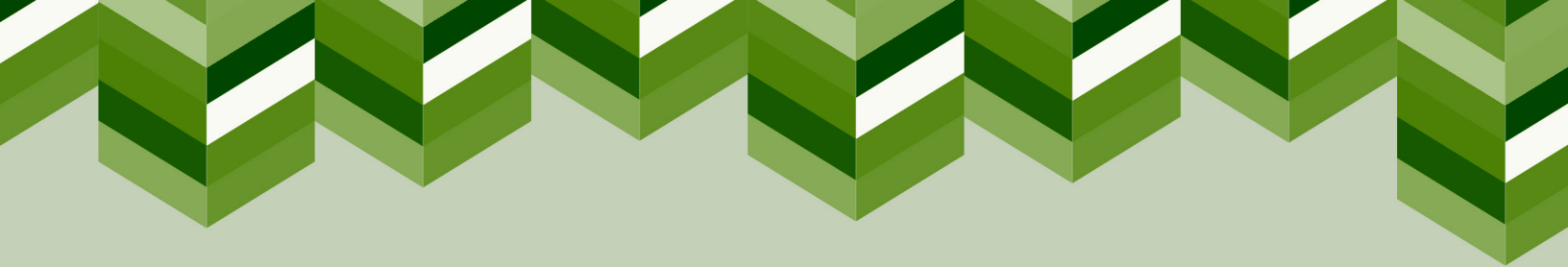
MR. JERRY V. MONTEJO
Regional Director

MR. FREDERICK NICASIO M. TORRES
Regional Director

MS. JOY G. PALOMIQUE
Regional Director

MS. LEONIDA M. GUTIERREZ
Regional Director

MS. PATRICIA G. SABALLO
Regional Director



MS. JULIANA M. SALCEDO
Senior Area Manager

MS. FLORENCE B. CASTILLO
Regional Director

MR. RODEL T. BOMBASE
Regional Director

MS. MILDRED dT. BALLARES
General Finance Manager

MS. MARY ANN C. RESPLANDOR
General Accounting Manager

MR. JOVEN N. ROBES
Personnel Manager

MS. ANNA THERESE A. DE LEON
Internal Audit Manager

MR. PETER C. PASIA
Legal Officer

MR. EDUARDO L. DIMAANO JR.
Information Security Officer



Partners

PARTNERSHIP/COLLABORATIONS

Agricultural Guarantee Fund Pool
Banco de Oro (BDO)
Bank of the Philippine Islands (BPI)
Bellavita Land Corporation
ChinaBank Savings
Development Bank of the Philippines (DBP)
German Savings Bank Foundation, Germany
International Finance Corporation
Landbank of the Philippines
Maybank
Metro Commercial & Industrial Services Corporation
Metropolitan Bank & Trust Corporation (MBTC)
PSBank
Rizal Commercial Banking Corporation
Rocking Moon Foundation
Rural Bank of Talisay, Inc.
Security Bank
SGV & Co.
Small Business Corporation
Social Security System
Sparkasse Essen, Germany
Sparkasse Rothenburg, Germany
Sparkassen International Development Trust GmbH (SIDT), Germany
UnionBank
United Coconut Planters Bank
Savings Bank Foundation for International Cooperation (SBFIC), Germany



REGULATORY BODIES

Bangko Sentral ng Pilipinas (BSP)
Philippine Deposit Insurance Corporation (PDIC)
Securities and Exchange Commission (SEC)

AFFILIATIONS

Bankers Institute of the Philippines, Inc. (BAIPHIL)
BancNet Inc.
BAP Credit Bureau
Chamber of Commerce, San Pablo Chapter
Chambers of Thrift Bank
Credit Information Corporation
Micro Finance Data Sharing (MIDAS)
San Pablo Bankers' Association
Philippine Chamber of Commerce and Industries (PCCI) Batangas



Audited Financial statements

CARD SME BANK, INC., A THRIFT BANK
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and Other Cash Items (Note 6)	₱8,550,182	₱9,582,664
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	156,044,613	106,715,506
Due from Other Banks (Note 6)	217,923,219	236,909,601
Held-to-Maturity Investments (Note 7)	–	10,967,990
Loans and Receivables (Note 8)	2,773,465,206	1,814,407,006
Property and Equipment (Note 9)	129,507,157	119,937,297
Investment Properties (Note 10)	8,357,492	15,812,550
Intangible Assets (Note 11)	8,795,939	4,840,245
Retirement Asset (Note 18)	75,590,128	45,280,571
Deferred Tax Assets (Note 19)	16,396,816	15,469,585
Other Assets (Note 12)	38,576,206	25,224,117
TOTAL ASSETS	₱3,433,206,958	₱2,405,147,132
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 13 and 20)		
Demand	₱7,911,981	₱4,145,437
Savings	1,891,728,854	1,225,752,973
	1,899,640,835	1,229,898,410
Bills Payable (Note 14)	694,069,886	487,105,882
Income Tax Payable	28,093,464	27,930,999
Other Liabilities (Note 15)	65,768,756	68,369,273
	2,687,572,941	1,813,304,564
Equity		
Common Stock (Note 17)	469,917,000	408,656,400
Surplus	266,182,858	167,819,526
Remeasurement Gains on Retirement Plan (Note 18)	9,534,159	15,366,642
	745,634,017	591,842,568
TOTAL LIABILITIES AND EQUITY	₱3,433,206,958	₱2,405,147,132

See accompanying Notes to Financial Statements.

CARD SME BANK, INC., A THRIFT BANK**STATEMENTS OF INCOME**

	Years Ended December 31	
	2016	2015
INTEREST INCOME		
Loans and receivables (Note 8)	₱1,015,542,517	₱728,384,986
Due from other banks (Note 6)	2,846,661	1,846,590
Held-to-maturity investments (Note 7)	–	654,752
	1,018,389,178	730,886,328
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 20)	33,659,960	23,447,058
Bills payable (Note 14)	21,476,385	7,312,365
Others	161,032	129,705
	55,297,377	30,889,128
NET INTEREST INCOME	963,091,801	699,997,200
OTHER INCOME		
Gain on sale of assets - net (Notes 9 and 10)	4,491,830	1,124,604
Miscellaneous	4,633,560	3,862,123
TOTAL OPERATING INCOME	972,217,191	704,983,927
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 18 and 20)	293,536,563	211,061,053
Transportation and travel (Note 20)	61,903,741	38,403,705
Taxes and licenses	59,077,255	41,457,784
Occupancy and equipment - related cost (Note 21)	48,174,374	29,459,514
Provision for credit and impairment losses (Notes 8 and 10)	37,095,217	19,255,026
Employee trainings (Note 20)	34,395,470	20,129,371
Stationery and office supplies	33,544,035	21,980,452
Depreciation and amortization (Notes 9, 10 and 11)	24,140,022	15,323,000
Information technology (Note 20)	18,961,392	10,116,670
Security, messengerial and janitorial	18,635,849	11,376,626
Representation and entertainment (Note 19)	9,736,713	9,938,765
Program monitoring	9,631,354	6,319,190
Meetings and seminars (Note 20)	8,109,779	11,813,684
Power, light and water	6,936,872	4,884,049
Insurance	6,766,400	6,075,423
Postage, telephone and cable	5,741,664	4,542,992
Professional fees	5,414,473	3,716,874
Honorarium and directors' fees (Note 20)	5,251,392	7,112,000
Repairs and maintenance	4,404,536	3,232,861
Community development	3,122,990	697,299
Fines, penalties and other charges	–	3,187,160
Miscellaneous	7,141,986	4,610,740
TOTAL OPERATING EXPENSES	701,722,077	484,694,238
INCOME BEFORE INCOME TAX	270,495,114	220,289,689
PROVISION FOR INCOME TAX (Note 19)	82,186,578	67,511,417
NET INCOME	₱188,308,536	₱152,778,272

See accompanying Notes to Financial Statements.

CARD SME BANK, INC., A THRIFT BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME	₱188,308,536	₱152,778,272
OTHER COMPREHENSIVE LOSS		
<i>Other comprehensive loss not recycled to profit or loss in subsequent periods:</i>		
Changes in remeasurement gains on retirement plan (Note 18)	(8,332,119)	(7,093,723)
Income tax effect	2,499,636	2,128,117
	(5,832,483)	(4,965,606)
TOTAL COMPREHENSIVE INCOME	₱182,476,053	₱147,812,666

See accompanying Notes to Financial Statements.

CARD SME BANK, INC., A THRIFT BANK
STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 17)	Surplus	Remeasurement Gains on Retirement Plan (Note 18)	Total
Balance at January 1, 2016	₱408,656,400	₱167,819,526	₱15,366,642	₱591,842,568
Collection of subscriptions receivable	61,260,600	–	–	61,260,600
Total comprehensive income (loss) for the year	–	188,308,536	(5,832,483)	182,476,053
Cash dividends declared (Note 17)	–	(89,945,204)	–	(89,945,204)
Balance at December 31, 2016	₱469,917,000	₱266,182,858	₱9,534,159	₱745,634,017
Balance at January 1, 2015	₱296,943,600	₱114,941,606	₱20,332,248	₱432,217,454
Collection of subscriptions receivable	111,712,800	–	–	111,712,800
Total comprehensive income (loss) for the year	–	152,778,272	(4,965,606)	147,812,666
Cash dividends declared (Note 17)	–	(99,900,352)	–	(99,900,352)
Balance at December 31, 2015	₱408,656,400	₱167,819,526	₱15,366,642	₱591,842,568

See accompanying Notes to Financial Statements.

CARD SME BANK, INC., A THRIFT BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱270,495,114	₱220,289,689
Adjustments for:		
Provision for credit and impairment losses (Notes 8 and 10)	37,095,217	19,255,026
Depreciation and amortization (Notes 9, 10 and 11)	24,140,022	15,323,000
Retirement expense (Note 18)	7,756,290	7,289,679
Gain on sale of assets - net (Notes 9 and 10)	(4,491,830)	(1,124,604)
Amortization of bills payable (Note 14)	1,708,386	375,024
Amortization of discount on held-to-maturity investments and unquoted debt securities (Notes 7 and 8)	481,490	177,007
Reversal of impairment losses on investment property (Note 10)	(143,697)	(1,371,145)
Amortization of finance lease obligation	64,344	-
Changes in operating assets and liabilities:		
Increase in the amounts of:		
Loans and receivables	(996,634,907)	(484,738,971)
Other assets	(13,352,089)	(11,980,752)
Increase (decrease) in the amounts of:		
Deposit liabilities	669,742,425	281,508,401
Other liabilities	(6,979,511)	10,616,454
Net cash generated from (used in) operations	(10,118,746)	55,618,808
Income taxes paid	(80,451,709)	(62,629,164)
Retirement contributions paid (Note 18)	(46,397,966)	(26,027,000)
Net cash provided by (used in) operating activities	(136,968,421)	(33,037,356)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Notes 9 and 22)	(30,057,145)	(53,796,681)
Intangible assets (Notes 11 and 22)	(7,729,392)	(1,326,692)
Proceeds from sale or maturities of:		
Investment properties (Notes 10 and 22)	13,006,537	620,000
Held-to-maturity investments (Note 7)	10,967,990	-
Property and equipment (Note 9)	899,357	-
Net cash provided by (used in) investing activities	(12,912,653)	(54,503,373)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable (Note 14)	627,575,618	486,730,858
Settlement of bills payable (Note 14)	(422,320,000)	(260,000,000)
Cash dividends paid (Note 17)	(92,526,801)	(97,527,999)
Collections of subscriptions receivable (Note 17)	61,260,600	111,712,800
Deposit for stock subscription (Note 15)	5,201,900	-
Net cash provided by financing activities	179,191,317	240,915,659

(Forward)

	Years Ended December 31	
	2016	2015
NET INCREASE IN CASH AND CASH EQUIVALENTS	₱29,310,243	₱153,374,930
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	9,582,664	6,679,030
Due from Bangko Sentral ng Pilipinas	106,715,506	81,135,679
Due from other banks	236,909,601	112,018,132
	353,207,771	199,832,841
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	8,550,182	9,582,664
Due from Bangko Sentral ng Pilipinas	156,044,613	106,715,506
Due from other banks	217,923,219	236,909,601
	₱382,518,014	₱353,207,771
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱1,010,840,025	₱720,196,192
Interest paid	49,347,756	29,791,673

See accompanying Notes to Financial Statements.

CARD SME BANK, INC., A THRIFT BANK

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

CARD SME Bank Inc., A Thrift Bank (the Bank) was incorporated in the Philippines on October 4, 1961. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on May 10, 1962. Its principal place of business is at 120 M. Paulino St., corner Burgos St., San Pablo City, Laguna. The Bank offers a wide range of products and services such as deposit and loan products mainly to the consumer market. As of December 31, 2016 and 2015, the Bank has 20 and 15 branches, respectively.

In 2007, the Bank (with existing branches in Sto. Tomas, and Lipa City, Batangas and Tagaytay City, Cavite) became a member of Center for Agriculture and Rural Development (CARD) – Mutually Reinforcing Institutions (MRI) when CARD, Inc. and CARD Employees Multi-Purpose Cooperative (EMPC) acquired the majority of its voting stock. The rehabilitation court and the BSP approved the sale and transfer of shares of stock on September 5, 2007 and February 7, 2008, respectively. This strategic move supports the graduating microenterprises clients of CARD MRI, by empowering them through continuous access to financial resources and nonfinancial services. CARD MRI's social mission of poverty alleviation has been folded into bank's operation through its microfinance operation.

On May 20, 2010, the Monetary Board of BSP has approved the increase in the authorized capital stock of the Bank from ₱20.00 million to ₱500.00 million and the number of Board of Directors (BOD) from five (5) to nine (9) members. Likewise on December 9, 2010, the Monetary Board of BSP thru its Resolution No. 1757 has approved the conversion of the operation of the bank from rural bank category to a regular thrift Bank.

The BSP and Philippine Securities and Exchange Commission (SEC) approved on April 8, 2011 and May 11, 2011, respectively, the Bank's amended Articles of Incorporation (AOI) and new by-laws. The approved amendments to the Bank's AOI follow:

- a. Change of the corporate name from 'Rural Bank of Sto. Tomas (Batangas), Inc.' to 'CARD SME Bank, Inc., A Thrift Bank';
- b. Change of the primary and secondary purposes from that of rural banking to thrift banking;
- c. Change of the principal office address from 'General Malvar Avenue, Sto. Tomas, Batangas' to 'San Pablo City, Laguna'; and
- d. Extension of the Bank's corporate life for another fifty (50) years from the date of expiration on February 6, 2012.

The Bank was granted by the BSP the authority to operate as a thrift bank on June 15, 2011. On July 25, 2011, the Bank formally started its operations as a thrift bank.

As a thrift bank, the Bank can (1) provide short term working capital, medium and long-term financing, to business engaged in agricultural services, industry and housing; (2) provide diversified financial and allied services for its chosen market and constituents especially for small and medium enterprises, microfinance and individuals; and (3) carry on activities specified under Section 10 of Republic Act (RA) 7906, otherwise known as '*Thrift Banks Act of 1995*'.

As of December 31, 2016 and 2015, the Bank is 33.8% owned by CARD, Inc.

2. Summary Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso, which is the Bank's functional currency. All values are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 16.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Bank. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross amounts in the statement of financial position.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2016.

- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standard (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*

Annual Improvements to PFRSs (2012 - 2014 Cycle)

- Amendments to PFRS 5, *Noncurrent Assets Held-for-Sale and Disposal Operations - Changes in Methods of Disposal*
- Amendments to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
- Amendments to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- Amendments to PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*
- Amendments to PAS 34, *Interim Financial Reporting - disclosure of information elsewhere in the interim financial report*

The aforementioned new and amended standards and interpretations did not have any impact on the financial position or performance of the Bank.

Significant Accounting Policies

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP, which the Bank considers as cash equivalents wherein drawings can be made to meet cash requirement.

Fair Value Measurement

The Bank measures assets and liabilities at fair value on initial recognition date. Also, fair values of financial instruments measured at amortized cost and investment properties disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and ask price, the price within the bid-ask spread is the most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities in the absence of a principal market, in the most advantageous market for the asset or liability
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statement at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Bank does not have assets and liabilities carried at fair value as of December 31, 2016 and 2015.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as disclosed above (Note 4).

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date, the date that an asset is delivered to or by the Bank. Deposits and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, Available-for-sale (AFS) investments, held-to-maturity (HTM) investments and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified as either financial liabilities at FVPL or financial liabilities carried at amortized cost.

As of December 31, 2016 and 2015, the Bank has no outstanding financial instruments at FVPL and AFS investments.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value or from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income

under ‘Miscellaneous’ unless it qualifies for recognition as some other type of asset. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the ‘Day 1’ difference amount.

HTM investments

HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank has the positive intention and ability to hold to maturity. Where the Bank sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Bank is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in ‘Interest income’ in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the statement of income under ‘Provision for credit and impairment losses’.

Loans and receivables

This accounting policy relates to ‘Due from BSP’, ‘Due from other banks’, ‘Loans and receivables’ and refundable deposits under ‘Other assets’. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not cover substantially all of its initial investment other than because of credit deterioration.

After initial measurement, these are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in ‘Interest income’ in the statement of income. Losses arising from impairment are recognized in ‘Provision for credit and impairment losses’ in the statement of income.

Other financial liabilities

These are issued financial instruments or their components, which are not designated at FVPL where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified and not designated as FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

When the Bank breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statement for issue, not to demand payment as a consequence of the breach. The Bank classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

These policies apply to liabilities classified under 'Deposit liabilities', 'Bills payable' and other financial liabilities under 'Other liabilities' in the statement of financial position.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost

For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Bank determines that no objective evidence that an impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of credit risk characteristics such as past due status of the borrowers. Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income under 'Provision for credit and impairment losses'. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is

reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited under 'Miscellaneous' in the statement of income.

Restructured loans

Where possible, the Bank seeks to restructure loans, rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized under 'Provision for credit and impairment losses' in the statement of income.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of property and equipment consists of its purchase price, including nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and EUL of the improvements.

The range of the EULs of the property and equipment follows:

Building and improvements	5 to 15 years
Leasehold improvements	3 to 5 years
Furniture, fixtures and equipment	2 to 3 years
Transportation equipment	3 to 5 years

The depreciation method and the EULs are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income under 'Gain on sale of asset - net' in the period the asset is derecognized.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such

indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized under 'Provision for credit and impairment losses' in the statement of income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon either: a) entry of judgment in case of judicial foreclosure, b) execution of sheriff's certificate of sale in case of extra-judicial foreclosure; or c) notarization of the deed of dacion in case of payment in kind (dacion en pago).

The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized under 'Other income' in the statement of income.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation (for depreciable investment properties) and accumulated impairment losses, if any.

Depreciation on buildings and improvements is calculated on a straight-line basis over the EUL of ten years from the time of acquisition of the depreciable investment properties.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the period of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against income in the period in which the costs are incurred.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by cessation of owner-occupation or commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the

statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets consist of software costs which are amortized on a straight-line basis over three years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the assets is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is assessed as part of the cash generating unit (CGU) to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the period in which it arises. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Retirement Benefits

Defined benefit plan

The Bank operates a defined benefit retirement plan and a hybrid retirement plan which require contribution to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and
- remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expenses in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income. Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in the statement of financial position with a corresponding debit or credit to 'Changes in remeasurement gains on retirement liabilities' under other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Equity

Common stock

Common stock represents the aggregate amount of paid capital stock which is determined using the nominal or par value of shares that have been issued. When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus.

Subscribed common stock is recognized at subscribed amount net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock. Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounted for the subscription receivable as a contra equity account.

Surplus

Surplus represents the accumulated earnings, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'Capital paid in excess of par value'. Voting rights related to treasury stocks are nullified for the Bank and no dividends are allocated to them. When the stocks are retired, the 'Common stock' account is reduced by its par value and the excess of cost over par value upon retirement is debited to 'Capital paid in excess of par value' at the time the stocks were issued and to surplus for the remaining balance.

Cash dividends

Dividend distributions are at the discretion of the Bank. A dividend distribution to the Bank's shareholders is accounted for as a deduction from retained earnings. A proposed cash dividend is recognized as a liability in the period in which it is approved by the BOD.

Deposit for Future Stock Subscription

Deposit for future stock subscription shall be classified under equity account if all of the following conditions are present as of reporting date:

- the unissued authorized capital stock of the Bank is insufficient to cover the amount of shares indicated in the contract;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the Bank);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the BSP and the SEC.

Deposit for future stock subscription that does not meet the foregoing provisions is treated as a financial liability.

As of December 31, 2016 and 2015, the Bank has Deposit for future stock subscription recorded under 'Other liabilities' in the statement of financial position amounting to ₱5.2 million and nil, respectively (Note 17).

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Interest on financial instruments is recognized based on the effective interest method of accounting. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income over a relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees (such as service fees) or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

'Unearned interest income' is recognized as income over the terms of the receivables using the effective interest method and shown as deduction from loans.

Gain on sale of assets - net

Gain or loss from exchange or sale of assets is recognized upon completion of the earning process. For disposal of nonfinancial assets, this will include whether the collectability of the consideration is reasonably assured.

Loan fees, service fees and penalties

Loan fees are recognized over the term of the credit lines granted to each borrower. Service fees are accrued when earned. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability. These items are recognized under 'Miscellaneous' in the statement of income.

Expense Recognition

Expense is recognized when it is probable that decrease in the future economic benefits related to decrease in an asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Bank. Expenses are recognized when incurred.

Interest expense

Interest expense for all interest-bearing financial liabilities is recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Taxes and licenses

This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios 'a', 'c' or 'd' above, and at the date of renewal or extension period for scenario 'b'.

Bank as a lessee

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Occupancy and equipment-related cost' in the statement of income on a straight-line basis over the lease term.

Income Taxes

Income tax on profit or loss for the year comprises amount and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

Current tax

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward of unused excess MCIT over RCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity is recognized in OCI, and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relates to the same taxable entity and the same taxation authority.

Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized under 'Interest expense' in the statement of income.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Any post-year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The listing consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. Unless otherwise indicated, the Bank does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendments to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property - Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Pronouncements that are deemed to have significant impact on the financial statements of the Bank are described below:

Effective beginning on or after January 1, 2018

- *PFRS 9, Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement and impairment. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets and impairment methodology and credit losses for financial assets, but will have no impact on the classification and measurement of the Banks's financial liabilities. The Bank is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- *PFRS 16, Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Bank is currently assessing the impact of adopting PFRS 16.

3. Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the judgments used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgement

(a) Embedded Derivatives

Where a hybrid instrument is not classified as financial assets at FVPL, the Bank evaluates whether the embedded derivatives should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Estimates

(a) Credit losses on loans and receivables

The Bank reviews its loans and receivables to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or national or local economic conditions that correlate with defaults on the loans and receivables. Past-due accounts for more than 90 days, and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as of year-end, fall under specific loan loss.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. For the purpose of a collective impairment, loans and receivables are grouped on the basis of their credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical experience for assets with credit risk characteristics similar to those on the group.

As of December 31, 2016 and 2015, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

(b) Present value of defined benefit obligation

The cost of defined benefit plan, as well as the present value of defined benefit obligation, is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the complexity of the

valuation, the underlying assumptions and long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates of the Philippines. The present value of the retirement liability and fair value of plan assets are disclosed in Note 18.

(c) *Recognition of deferred tax assets*

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits and related future tax planning strategies.

The Bank reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Details of recognized and unrecognized deferred tax assets are disclosed on Note 19.

4. Fair Value Measurement and Fair Value Hierarchy

Fair Value Measurement

As of December 31, 2016 and 2015, except as discussed below, the carrying values of the Bank's financial assets and financial liabilities as reflected in the statements of financial position and related notes approximate their fair values.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The methods and assumptions used by the Bank in estimating fair values of financial instruments and nonfinancial asset for which fair value is disclosed are as follows:

Cash and other cash items, due from BSP, due from other banks, refundable deposits, accrued expenses, accrued interest payable, accounts payable, deposits for stocks subscription and dividends payable

Fair values of these financial instruments approximate their carrying values in view of the short term maturities of these instruments.

Noncurrent portion of receivables and unquoted debt securities

Fair values of noncurrent portion of receivables and unquoted debt securities are estimated using the discounted cash flow methodology using interest rates offered for similar loans to borrowers with similar credit ratings and taking into account the remaining maturities.

HTM investments

Fair values of HTM investments are calculated by reference to quoted market prices, which is within the bid-ask price, as at reporting date unless the market is not active. In such case, the price

at the last date of activity shall be used. HTM investments of the Bank are categorized as Level 2 due to low volume of trading activity and absence of bid-offer as at reporting date.

Noncurrent portion of deposit liabilities and bills payable

Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any.

Fair values of noncurrent portion of bills payable are estimated using the discounted cash flow methodology, using incremental borrowing rates for similar financial liabilities, taking into account the remaining maturities and applicable spreads of the counterparties.

Investment properties

Fair values of the Bank's investment properties have been determined based on valuations made by independent external appraiser based on the recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

The Bank uses a hierarchy for determining and disclosing the fair value of its assets and liabilities (Note 2).

The following table summarizes the valuation techniques used and the significant unobservable inputs valuation for investment properties held by the Bank:

	Valuation Techniques	Significant Unobservable inputs
Land	Market Data Approach	Location, size, shape, utility/neighborhood, improvements and time element
Building	Modified Quantity Survey Approach	Depreciated replacement cost

Description of the valuation techniques, inputs and assumptions used to value the Bank's investment properties are as follows:

Valuation Techniques, Inputs and Assumptions	Description
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Modified Quantity Survey Approach	A method wherein each building component is priced based on the current cost of materials and labor and indirect costs such as contractor's profits, overhead, taxes, fees and other related expenses are then added in lump sum.

Fair Value Hierarchy

The following table summarizes the carrying values and the fair values by level of the fair value hierarchy of the Bank's assets and liabilities as of December 31, 2016 and 2015 for which fair values are required to be disclosed.

2016					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets and liabilities for which fair values are disclosed*:					
<i>Financial assets</i>					
Loans and receivables					
SME loans	P286,959,954	P-	P-	P233,763,569	P233,763,569
Unquoted debt securities	85,482,031	-	-	73,891,658	73,891,658
<i>Nonfinancial asset</i>					
Investment properties	8,357,492	-	-	8,833,224	8,833,224
<i>Financial liabilities</i>					
Deposit liabilities	2,642,382	-	-	2,492,417	2,492,417
Bills payable	119,429,886	-	-	129,913,873	129,913,873
Finance lease payable	1,678,324	-	-	2,009,718	2,009,718
<i>* Pertains to noncurrent assets and liabilities</i>					
2015					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets and liabilities for which fair values are disclosed*:					
<i>Financial assets</i>					
HTM investments	P10,967,990	P-	P10,950,253	P-	P10,950,253
Loans and receivables*					
SME loans	189,271,865	-	-	198,391,511	198,391,511
Unquoted debt securities	20,229,010	-	-	20,059,281	20,059,281
<i>Nonfinancial asset</i>					
Investment properties	15,812,550	-	-	26,406,126	26,406,126
<i>Financial liabilities</i>					
Deposit liabilities	792,764	-	-	637,134	637,134
Bills payable	157,105,882	-	-	156,713,325	156,713,325
<i>* Pertains to noncurrent assets and liabilities</i>					

As of December 31, 2016 and 2015, the Bank has no financial instruments carried at fair value.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements in 2016 and 2015.

5. Financial Risk Management Objectives and Policies

In the course of the business cycle, the Bank has exposure to the following risks from its use of financial instruments: (a) credit risk; (b) market risk; and (c) liquidity risk.

The Bank adheres to the proactive and prudent approach of managing the business that recognizes and manages risks to continuously provide quality financial services to clients and to protect shareholders' value.

Risk management process involves setting of revenue goals, definition of risk philosophy and creating risk culture, determining opportunities that would create risk in the future, identifying and assessing the risk, evaluating and defining risk tolerance, taking actions to mitigate and control the

risks through defined roles and responsibilities, close monitoring of the scenarios, reporting of risk taking performance, revalidation of risk methodologies and adjustment of the systems and policies necessary to effectively minimize risk level.

The BOD through its Credit Risk Management Committee (CRMC) is responsible for the development and oversight of the Bank's risk management program, identification and evaluation of risk exposures, monitoring the Bank's implementation of risk management policies and procedures, and for reviewing and evaluating the adequacy of risk management framework in relation to the risks faced by the Bank. The CRMC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. Risk management of the Bank is strengthened in conjunction with Audit Committee (AC) and Internal Audit (IA) functions. IA undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

Credit risk

Credit risk is the risk of financial loss to the Bank if the counterparty to a financial instrument fails to meet its contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Management of credit risk

Credit risk is being managed by instilling credit discipline both among the Bank's staff and the borrowers. The Bank's staff performs in-depth credit evaluation and close monitoring of account throughout the borrowing period, hence, on-time service delivery motivates the borrowers to fulfill their financial obligation to the highest standards. Borrowers are well-oriented on the credit repayment design they undertake.

For microfinance loans, loan portfolio is diversified in different economic activities or projects. There is geographical diversification to spread the risk brought about by natural calamities. Proper target market selection, rigorous character and background investigation, members' or borrowers' education or training on credit discipline in microfinance and validation of utilization of loan proceeds are applied. Intensive monitoring of all branches is conducted by the Area Manager (AM), Regional Director (RD) and Executive Vice President (EVP). Staff skills and competencies are regularly updated. Strategies are identified to manage competitors. Development of new client or market-oriented loan or deposit products and enhancement of product design systems and procedures, monitoring of members without loans and motivating qualified members to borrow are regularly done. Cost-cutting measures were planted to achieve improved profitability. Financial ratios and evaluation of compliance with BSP standards are regularly monitored.

Furthermore, the Bank has a preventive delinquency management approach through proper and strict credit delivery, monitoring and collection. Close monitoring through conduct of weekly center meetings is being implemented allowing the early determination of early warning signals on each borrower-member. A daily monitoring on the number of defaulted members and intensive follow-up areas are strictly being implemented. Various remedial measures are likewise being implemented to allow rehabilitation of defaulted borrowers. Defaulted borrowers which failed to cooperate despite remedial efforts done are referred to the Bank's legal counsel for collection or filing of appropriate legal action.

In general, borrowers are also perpetual savers. Consequently, their Pledge Savings accounts are pledged and serve as guarantee to their loans, which increase their borrowing capacity. Each business unit has a Unit Manager who reports on all credit-related matters to the local management consisting of the AM, RD and EVP.

Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular audits of business units and credit processes are undertaken by Internal Auditors.

All past due or impaired accounts are reported on a daily, weekly and monthly bases to the BOD. Consistent monitoring for this group of accounts is established by competent and diligent staff to maximize recovery. Incentives have been established and subjected to review and assessment periodically. These are given to staff to recover from the accounts and to fully instill credit discipline to borrowers. Restructuring of loan payments are done after full compliance of approved policies and procedures. Writing-off bad accounts is approved by the BOD and reported to the BSP in compliance with the Manual of Regulations for Banks.

Maximum exposure to credit risk

The tables below provide the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements.

	2016			
	Maximum Exposure to Credit Risk*	Fair value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancement	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱2,310,820,654	₱558,178,424	₱545,766,611	₱1,765,054,043
SME loans	376,189,555	123,716,863	26,021,714	350,167,841

* Includes accrued interest receivable and net of unearned discount and allowance for credit loans

	2015			
	Maximum Exposure to Credit Risk*	Fair value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancement	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱1,597,493,662	₱384,540,322	₱375,579,520	₱1,221,914,142
SME loans	194,490,043	95,661,722	34,552,777	159,937,266
Sales contract receivables	1,643,250	1,892,200	1,284,243	359,007

* Includes accrued interest receivable and net of unearned discount and allowance for credit loans

Credit enhancement for microfinance loans pertains to deposit hold-out from center fund savings equivalent to 15.0% of the loaned amount of the member as of December 31, 2016 and 2015. Credit enhancement for SME loans consists of chattel and real estate mortgages.

As of December 31, 2016 and 2015, the Bank has no financial assets with rights to offset in accordance with Amendments to PAS 32, *Financial Instruments - Offsetting Financial Assets and Financial Liabilities*. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with PFRS.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as of December 31, 2016 and 2015:

	2016			
	Due from BSP and other banks	Loans and receivables	Refundable deposits*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱-	₱1,372,542,770	₱-	₱1,372,542,770
Other community, social and personal service activities	-	887,390,884	-	887,390,884
Agriculture, hunting and forestry	-	298,508,790	-	298,508,790
Government	156,044,613	85,482,033	-	241,526,646
Financial intermediaries	217,923,219	-	-	217,923,219
Manufacturing	-	113,063,015	-	113,063,015
Real estate and construction	-	111,482,231	5,832,155	117,314,386
	373,967,832	2,868,469,723	5,832,155	3,248,269,710
Allowance for credit losses	-	(93,574,325)	-	(93,574,325)
Unearned interest and discount	-	(1,430,192)	-	(1,430,192)
Total	₱373,967,832	₱2,773,465,206	₱5,832,155	₱3,153,265,193

* Included under 'Other assets' (Note 12)

	2015				
	Due from BSP and other banks	Loans and receivables	HTM investments	Refundable deposits*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱-	₱1,194,560,154	₱-	₱-	₱1,194,560,154
Other community, social and personal service activities	-	203,477,900	-	-	203,477,900
Agriculture, hunting and forestry	-	204,283,878	-	-	204,283,878
Government	106,715,506	20,010,570	10,967,990	-	137,694,066
Financial intermediaries	236,909,601	9,273,966	-	-	246,183,567
Manufacturing	-	61,240,493	-	-	61,240,493
Real estate and construction	-	188,757,680	-	2,070,768	190,828,448
	343,625,107	1,881,604,641	10,967,990	2,070,768	2,238,268,506
Allowance for credit losses	-	(66,248,933)	-	-	(66,248,933)
Unearned interest and discount	-	(948,702)	-	-	(948,702)
Total	₱343,625,107	₱1,814,407,006	₱10,967,990	₱2,070,768	₱2,171,070,871

* Included under 'Other assets' (Note 12)

Credit quality per class of financial assets

Loans and receivables rated as high and standard grades refer to those accounts that do not have greater than normal risk or have potential weaknesses only.

It is the Bank's policy to dispose repossessed properties in an orderly transaction. The proceeds are used to reduce or repay the outstanding claims. In general, the Bank does not occupy repossessed properties for business use. The Bank has a program of disposal of its investment properties to reduce the nonperforming assets in its books. Investment properties may be disposed through redemption, negotiated sale or lease purchase.

High grade represents receivables and investments which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the securities, such as real estate mortgage on the receivables are readily enforceable. These also include deposits with reputable institutions from which the deposits may be withdrawn and recovered with certainty.

Standard grade represents deposits, receivables and investments where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

The tables below show the credit quality per class of financial assets (gross of allowance for credit losses and unearned interest income) as of December 31, 2016 and 2015:

	2016						
	Neither Past Due Nor Impaired			Unrated	Past Due but not Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Unrated				
Due from BSP	₱156,044,613	₱-	₱-	₱-	₱-	₱156,044,613	
Due from other banks	-	217,923,219	-	-	-	217,923,219	
Loans and receivables:							
Loans and discounts:							
Microfinance	-	2,316,009,626	-	5,830,582	17,142,690	2,338,982,898	
SME	108,754,146	252,506,781	-	9,365,921	31,265,333	401,892,181	
Real estate mortgage	-	-	-	-	64,980	64,980	
Unquoted debt securities	-	85,482,031	-	-	9,078,988	94,561,019	
Other receivables:							
Accrued interest receivable	383,329	31,409,273	-	-	-	31,792,602	
Accounts receivable	-	-	907,986	-	268,057	1,176,043	
Other assets - refundable deposits	-	-	5,832,155	-	-	5,832,155	
	₱265,182,088	₱2,903,330,930	₱6,740,141	₱15,196,503	₱57,820,048	₱3,248,269,710	

	2015						
	Neither Past Due Nor Impaired			Unrated	Past Due but not Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Unrated				
Due from BSP	₱106,715,506	₱-	₱-	₱-	₱-	₱106,715,506	
Due from other banks	-	236,909,601	-	-	-	236,909,601	
HTM investments	10,967,990	-	-	-	-	10,967,990	
Loans and receivables:							
Loans and discounts:							
Microfinance	-	1,603,823,893	-	3,007,875	12,565,742	1,619,397,510	
SME	70,527,411	111,745,894	-	8,042,670	15,414,313	205,730,288	
REM	-	-	-	-	130,679	130,679	
Unquoted debt securities	-	20,229,010	-	-	9,078,988	29,307,998	
Other receivables:							
Accrued interest receivable	337,963	24,361,110	-	-	-	24,699,073	
Sales contract receivable	-	1,643,250	-	-	186,193	1,829,443	
Accounts receivable	-	-	420,362	-	89,288	509,650	
Other assets - refundable deposits	-	-	2,070,768	-	-	2,070,768	
	₱188,548,870	₱1,998,712,758	₱2,491,130	₱11,050,545	₱37,465,203	₱2,238,268,506	

As of December 31, 2016 and 2015, the Bank's receivables that are past due for more than 90 days are considered impaired.

Aging analysis of past due but not impaired loans and receivables

The following table shows the total aggregate amount of loans and discounts that are contractually past due but not considered as impaired per delinquency bucket as of December 31, 2016 and 2015.

	2016			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
SME	₱5,024,431	₱2,618,884	₱1,722,607	₱9,365,922
Microfinance	1,495,495	2,585,806	1,749,280	5,830,581
	₱6,519,926	₱5,204,690	₱3,471,887	₱15,196,503

	2015			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
SME	₱7,487,485	₱511,147	₱44,038	₱8,042,670
Microfinance	684,681	892,268	1,430,926	3,007,875
	₱8,172,166	₱1,403,415	₱1,474,964	₱11,050,545

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Asset-Liability Management Committee is responsible in formulating the Bank's liquidity risk management policies. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

Liquidity risk is managed by the Bank through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times.

The Treasury Group uses liquidity forecast models that estimate the Bank's cash flow needs based on the Bank's actual contractual obligations and under normal circumstances and extraordinary circumstances.

Analysis of financial assets and financial liabilities by remaining maturities

The table below shows the maturity profile of the Bank's financial assets and financial liabilities based on contractual undiscounted cash flows as of December 31, 2016 and 2015:

	2016				Total
	Up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	
Financial Assets					
Cash and other cash items	₱8,550,182	₱-	₱-	₱-	₱8,550,182
Due from BSP	156,044,613	-	-	-	156,044,613
Due from other banks*	197,831,874	20,149,136	-	-	217,981,010
Loans and receivables*:					
Loans and discounts	103,098,210	2,011,966,204	518,657,595	1,169,764,907	3,803,486,916
Unquoted debt securities	250,417	85,251	14,073,510	108,766,399	123,175,577
Other receivables:					
Accounts receivable		907,986			907,986

(Forward)

	2016				
	Up to 1 month	More than 1	More than 6	Beyond	Total
		month to 6	months to 1 year	1 year	
	₱465,775,296	₱2,033,108,577	₱532,731,105	₱1,278,531,306	₱4,310,146,284
Financial Liabilities					
Deposit liabilities:					
Demand	7,911,981	–	–	–	7,911,981
Savings*	1,495,805,074	21,855,124	338,350,359	39,281,146	1,895,291,703
Bills payable*	–	352,320,000	222,320,000	123,040,000	697,680,000
Other liabilities					
Accrued expenses	–	28,915,238	–	388,703	29,303,941
Accounts payable	–	10,435,444	–	–	10,435,444
Dividends payable	–	81,092	–	–	81,092
Finance lease payable	60,583	363,498	363,498	1,151,070	1,938,649
	1,503,777,638	413,970,396	561,033,857	163,860,919	2,642,642,810
Net undiscounted financial assets (liabilities)	(₱1,038,002,342)	₱1,619,138,181	(₱28,302,752)	₱1,114,670,387	₱1,667,503,474

* Includes future interests

	2015				
	Up to 1 month	More than 1	More than 6	Beyond	Total
		month to 6	months to 1 year	1 year	
Financial Assets					
Cash and other cash items	₱9,582,664	₱–	₱–	₱–	₱9,582,664
Due from BSP	106,715,506	–	–	–	₱106,715,506
Due from other banks*	156,909,601	80,117,583	–	–	237,027,184
HTM investments	–	10,967,990	–	–	10,967,990
Loans and receivables*:					
Loans and discounts	101,564,662	1,460,968,592	355,271,384	151,219,372	2,069,024,010
Unquoted debt securities	2,882,679	188,451	3,096,280	14,061,600	20,229,010
Other receivables:					
Sales contract receivable	–	543,053	525,246	574,951	1,643,250
Accounts receivable	–	420,362	–	–	420,362
Refundable deposits	–	–	811,495	1,259,273	2,070,768
	377,655,112	1,553,206,031	359,704,405	167,115,196	2,457,680,744
Financial Liabilities					
Deposit liabilities:					
Demand	4,145,437	–	–	–	4,145,437
Savings*	909,795,929	252,132,002	67,827,098	849,537	1,230,604,566
Bills payable*	–	172,095,209	174,571,434	153,765,878	500,432,521
Other liabilities					
Accrued expenses	–	26,117,294	–	–	26,117,294
Accounts payable	–	24,963,025	–	–	24,963,025
Dividends payable	–	2,662,689	–	–	2,662,689
	913,941,366	477,970,219	242,398,532	154,615,415	1,788,925,532
Net undiscounted financial assets (liabilities)	(₱536,286,254)	₱1,075,235,812	₱117,305,873	₱12,499,781	₱668,755,212

* Includes future interests

As of December 31, 2016 and 2015, the Bank had a total of ₱930.0 million and ₱960.0 million credit lines with local banks, respectively. Out of which, ₱550.0 million and ₱460.0 million had been drawn as of December 31, 2016 and 2015, respectively.

Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The Bank is exposed to market risk, although minimal, due to its placement to government debt securities classified under HTM investments.

Interest rate risk

The Bank's nominal interest rate for REM loans are set at a fixed rate of 21.0% in 2016 and 2015. Microfinance loans earn nominal interest rates ranging from 2.6% to 28.0% with equivalent

effective interest rate ranging from 32.8% to 62.5% per annum in 2016 and 2015. For SME loans, interest rate charged to a borrower depends on the credit risk rating classification, the deposit level of the client as a percentage of the loan, and the internal basic interest rate.

As of December 31, 2016, repricing debt instrument only comprise 2% of total loan, thus the effect of interest repricing on loans is immaterial to the Bank. As of December 31, 2015, the Bank has no repricing financial instruments.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earns 1.5% to 6.0% per annum in 2016 and 2015. Special savings deposits earn and 1.8% to 3.0% per annum in 2016 and 2015. These special savings deposits are concentrated on 30 days to one year maturity.

The Bank pays fixed interest rates on bills payable from 3.0% to 6.6% in 2016 and from 4.2% to 6.6% in 2015.

In order to manage its interest rate risk, the Bank places its excess funds in high yield investments and other short-term time deposits and treasury notes. It also matches its interest rate and maturity to avoid negative gaps between the sources and applications.

Foreign currency risk

The Bank has no foreign currency-denominated transactions, thus, it has no exposure to changes in foreign exchange rates.

6. Cash and Cash Equivalents

The composition of this account follows:

	2016	2015
Cash and other cash items	₱8,550,182	₱9,582,664
Due from BSP	156,044,613	106,715,506
Due from other banks	217,923,219	236,909,601
	₱382,518,014	₱353,207,771

Due from BSP represents the aggregate balance of noninterest-bearing peso deposit account with BSP which the Bank maintains in compliance with the BSP requirements to meet regular and liquidity reserves on deposits. As of December 31, 2016 and 2015, the Bank is compliant with the applicable reserve requirements (Note 13).

Due from other banks consists of:

	2016	2015
Demand deposit	₱145,272,747	₱78,311,867
Savings deposit (Note 20)	52,559,127	78,597,734
Time deposit	20,091,345	80,000,000
	₱217,923,219	₱236,909,601

Due from other banks consist of funds deposited in domestic banks which are used as part of the Bank's working capital. These deposits bear annual interest rates ranging from 0.3% to 1.0% and 0.3% to 2.3% for the years ended December 31, 2016 and 2015, respectively.

	December 31	
	2016	2015
ASSETS		
Cash and Other Cash Items (Note 6)	₱8,550,182	₱9,582,664
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	156,044,613	106,715,506
Due from Other Banks (Note 6)	217,923,219	236,909,601
Held-to-Maturity Investments (Note 7)	–	10,967,990
Loans and Receivables (Note 8)	2,773,465,206	1,814,407,006
Property and Equipment (Note 9)	129,507,157	119,937,297
Investment Properties (Note 10)	8,357,492	15,812,550
Intangible Assets (Note 11)	8,795,939	4,840,245
Retirement Asset (Note 18)	75,590,128	45,280,571
Deferred Tax Assets (Note 19)	16,396,816	15,469,585
Other Assets (Note 12)	38,576,206	25,224,117
TOTAL ASSETS	₱3,433,206,958	₱2,405,147,132
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 13 and 20)		
Demand	₱7,911,981	₱4,145,437
Savings	1,891,728,854	1,225,752,973
	1,899,640,835	1,229,898,410
Bills Payable (Note 14)	694,069,886	487,105,882
Income Tax Payable	28,093,464	27,930,999
Other Liabilities (Note 15)	65,768,756	68,369,273
	2,687,572,941	1,813,304,564
Equity		
Common Stock (Note 17)	469,917,000	408,656,400
Surplus	266,182,858	167,819,526
Remeasurement Gains on Retirement Plan (Note 18)	9,534,159	15,366,642
	745,634,017	591,842,568
TOTAL LIABILITIES AND EQUITY	₱3,433,206,958	₱2,405,147,132

See accompanying Notes to Financial Statements.

No interest income is accreted on individually-impaired loans in 2016 and 2015.

The movements in allowance for credit losses follow:

	2016				
	Loans and discounts	Unquoted debt securities	Accounts receivable	Sales contract receivables	Total
Balance at beginning of year	₱56,894,464	₱9,078,988	₱89,288	₱186,193	₱66,248,933
Provisions	36,916,448	–	178,769	–	37,095,217
Write-offs and others	(9,583,632)	–	–	(186,193)	(9,769,825)
Balance at end of year	₱84,227,280	₱9,078,988	₱268,057	₱–	₱93,574,325
Individually-impaired	₱48,473,003	₱9,078,988	₱268,057	₱–	₱57,820,048
Collectively-impaired	35,754,277	–	–	–	35,754,277
	₱84,227,280	₱9,078,988	₱268,057	₱–	₱93,574,325
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	₱48,473,003	₱9,078,988	₱268,057	₱–	₱57,820,048

	2015				
	Loans and discounts	Unquoted debt securities	Accounts receivable	Sales contract receivables	Total
Balance at beginning of year	₱46,463,645	₱9,078,988	₱89,288	₱186,193	₱55,818,114
Provisions	18,113,386	–	–	–	18,113,386
Write-offs	(7,682,567)	–	–	–	(7,682,567)
Balance at end of year	₱56,894,464	₱9,078,988	₱89,288	₱186,193	₱66,248,933
Individually-impaired	₱28,110,734	₱9,078,988	₱89,288	₱186,193	₱37,465,203
Collectively-impaired	28,783,730	–	–	–	28,783,730
	₱56,894,464	₱9,078,988	₱89,288	₱186,193	₱66,248,933
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	₱28,110,734	₱9,078,988	₱89,288	₱186,193	₱37,465,203

Regulatory Reporting

In accordance with BSP regulations, the Bank considers loans with one-day past due as part of its portfolio-at-risk (PAR). As of December 31, 2016 and 2015, the Bank's PAR amounted to ₱63.7 million and ₱39.2 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱57.8 million and ₱37.5 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, based on Circular No. 772, NPLs of ₱15.2 million and ₱11.1 million, respectively, which the Bank reported to the BSP are net of specific allowance amounting to ₱48.5 million and ₱28.1 million respectively.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty days or more after due date or after they have become past due in accordance with existing BSP rules and

regulations. This shall apply to loans that are payable in lump sum and loans that are payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.0%) of the total receivable balance.

In the case of microfinance loans, past due/PAR accounts shall be considered as NPLs.

The following table shows the secured and unsecured portions of loans and discounts as of December 31, 2016 and 2015:

	2016	2015
Secured portion		
Deposit hold-out (Note 13)	₱558,856,382	₱375,579,520
REM	108,819,128	70,658,091
Chattel mortgage	37,172,928	25,003,631
	704,848,438	471,241,242
Unsecured portion	2,036,091,621	1,354,017,235
	₱2,740,940,059	₱1,825,258,477

Information on the concentration of credit as to industry of loans and receivables (gross of unearned discounts and allowance for impairment and credit losses) follows:

	2016		2015	
	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱1,745,846,895	63.7	₱1,258,298,062	68.9
Other community, social and personal service activities	472,039,128	17.2	112,678,364	6.2
Agriculture, hunting and forestry	298,508,790	10.9	204,283,878	11.2
Manufacturing	113,063,015	4.1	61,240,493	3.4
Real estate and construction	111,482,231	4.1	188,757,680	10.3
	₱2,740,940,059	100.00	₱1,825,258,477	100.0

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

9. Property and Equipment

The composition of and movements in this account follow:

	2016						
	Land	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost							
Balance at beginning of year	₱46,330,516	₱34,735,938	₱27,250,575	₱35,625,049	₱7,317,074	₱14,184,000	₱165,443,152
Acquisition	585,100	1,160,787	13,137,389	16,868,216	–	–	31,751,492
Disposals	–	(3,303,947)	(6,863,604)	(2,712,620)	(223,944)	–	(13,104,115)
Transfers	–	14,184,000	–	–	–	(14,184,000)	–
Balance at end of year	46,915,616	46,776,778	33,524,360	49,780,645	7,093,130	–	184,090,529
Accumulated Depreciation							
Balance at beginning of year	–	5,612,919	11,371,073	23,262,587	5,259,276	–	45,505,855
Depreciation	–	4,639,190	5,537,665	9,370,043	796,325	–	20,343,223
Disposals	–	(2,569,691)	(5,788,122)	(2,683,955)	(223,938)	–	(11,265,706)
Balance at end of year	–	7,682,418	11,120,616	29,948,675	5,831,663	–	54,583,372
Net Book Value	₱46,915,616	₱39,094,360	₱22,403,744	₱19,831,970	₱1,261,467	₱–	₱129,507,157

	2015						
	Land	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost							
Balance at beginning of year	₱30,429,054	₱17,569,176	₱14,522,203	₱26,674,460	₱6,983,410	₱–	₱96,178,303
Acquisition	15,901,462	17,166,762	12,728,372	9,050,805	1,231,000	14,184,000	70,262,401
Disposals	–	–	–	(100,216)	(897,336)	–	(997,552)
Balance at end of year	46,330,516	34,735,938	27,250,575	35,625,049	7,317,074	14,184,000	165,443,152
Accumulated Depreciation							
Balance at beginning of year	–	3,512,798	7,328,534	16,475,623	5,273,141	–	32,590,096
Depreciation	–	2,100,121	4,042,539	6,871,062	883,466	–	13,897,188
Disposals	–	–	–	(84,098)	(897,331)	–	(981,429)
Balance at end of year	–	5,612,919	11,371,073	23,262,587	5,259,276	–	45,505,855
Net Book Value	₱46,330,516	₱29,123,019	₱15,879,502	₱12,362,462	₱2,057,798	₱14,184,000	₱119,937,297

The Bank received ₱0.9 million and nil in 2016 and 2015, respectively, for the disposal of property and equipment. Loss on disposal of property and equipment amounted to ₱0.9 million and ₱0.02 million in 2016 and 2015, respectively.

The total cost of fully depreciated assets still in use is ₱20.3 million and ₱10.0 million as of December 31, 2016 and 2015, respectively.

There are no restrictions on titles on property and equipment and the Bank does not have any contractual commitments for the acquisition of property and equipment as of December 31, 2016 and 2015.

10. Investment Properties

The composition of and movements in this account follow:

	2016			Total
	Land	Building	Asset held by SPV	
Cost				
Balance at beginning of year	₱16,214,277	₱231,001	₱5,351,413	₱21,796,691
Disposals	(7,757,154)	–	–	(7,757,154)
Balance at end of year	8,457,123	231,001	5,351,413	14,039,537
Accumulated Depreciation				
Balance at beginning of year	–	204,507	–	204,507
Depreciation	–	23,100	–	23,100
Balance at end of year	–	227,607	–	227,607
Allowance for Impairment Losses				
Balance at beginning of year	3,083,478	–	2,696,156	5,779,634
Reversal	(143,697)	–	–	(143,697)
Disposals	(181,499)	–	–	(181,499)
Balance at end of year	2,758,282	–	2,696,156	5,454,438
Net Book Value	₱5,698,841	₱3,394	₱2,655,257	₱8,357,492

	2015			Total
	Land	Building	Assets held by SPV	
Cost				
Balance at beginning of year	₱17,571,756	₱738,001	₱5,351,413	23,661,170
Disposals	(1,357,479)	(507,000)	–	(1,864,479)
Balance at end of year	16,214,277	231,001	5,351,413	21,796,691
Accumulated Depreciation				
Balance at beginning of year	–	406,300	–	406,300
Depreciation	–	134,915	–	134,915
Disposals	–	(336,708)	–	(336,708)
Balance at end of year	–	204,507	–	204,507
Allowance for Impairment Losses				
Balance at beginning of year	4,807,239	290,883	1,554,516	6,652,638
Provision	–	–	1,141,640	1,141,640
Reversal	(1,261,420)	(109,725)	–	(1,371,145)
Disposals	(462,341)	(181,158)	–	(643,499)
Balance at end of year	3,083,478	–	2,696,156	5,779,634
Net Book Value	₱13,130,799	₱26,494	₱2,655,257	₱15,812,550

Direct operating expenses on investment properties amounting to ₱0.1 million in both 2016 and 2015 are included under ‘Taxes and licenses’ and nil and ₱0.5 million in 2016 and 2015, respectively are included in ‘Miscellaneous expense’. In 2016 and 2015, all of the Bank’s investment properties are non-revenue generating.

The Bank received ₱13.0 million and ₱0.6 million in 2016 and 2015, respectively, for the sale of investment properties. Total net gain on sale of investment properties amounted to ₱5.4 million and ₱1.1 million in 2016 and 2015, respectively.

Assets held by a Special Purpose Vehicle

Assets held by a Special Purpose Vehicle (SPV) represents foreclosed properties (land) which have been specifically identified for sale under a sale and purchase agreement (SPA) with an SPV.

Under Republic Act No. 9182, *The Special Purpose Vehicle Act of 2002*, the sale of assets to the SPV under the SPA is a true sale, as approved by the BSP. However, under PFRS, the assets sold remain to be recognized by the Bank since the risks and rewards of ownership over the assets are not yet transferred to the SPV.

Major provisions of the SPA follow:

- The proceeds of the sale shall be paid by the buyer to the Bank on or before November 20, 2018. The payment shall not be subject to any interest;
- The buyer covenants and undertakes that any and all proceeds from any subsequent sale, disposition or settlement of any asset shall be earmarked for the payment of the purchase price; and
- If on the due date, the amount of the net proceeds is less than the purchase price, the difference between the net proceeds and purchase price shall be applied against the unpaid balance.

11. Intangible Assets

Intangible assets pertain to the system and licenses purchased by the Bank in relation to the general ledger system implemented in 2015.

The composition of and movements in this account follow:

	2016	2015
Cost		
Balance at beginning of year	₱6,131,142	₱4,772,600
Acquisition	7,729,392	1,358,542
Balance at end of year	13,860,534	6,131,142
Accumulated Amortization		
Balance at beginning of year	1,290,897	–
Amortization	3,773,698	1,290,897
Balance at end of year	5,064,595	1,290,897
Net Book Value	₱8,795,939	₱4,840,245

12. Other Assets

This account consists of

	2016	2015
Financial assets		
Refundable deposits	₱5,832,155	₱2,070,768
Nonfinancial assets		
Prepaid expenses	21,124,814	9,419,313
Stationeries and supplies	11,469,237	13,584,036
Miscellaneous	150,000	150,000
	32,744,051	23,153,349
	₱38,576,206	₱25,224,117

13. Deposit Liabilities

The Bank's savings deposit liabilities include pledge savings amounting to ₱1.2 billion and ₱0.8 billion as of December 31, 2016 and 2015, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each microfinance member in 2016 and 2015. Under an assignment agreement, the pledge savings earn annual interest of 2.0% in 2016 and 2015. Pledge savings equivalent to 15.0% of the loan proceeds serves as guarantee fund of outstanding receivables from members (Note 8).

Savings deposits include regular and special savings deposits. Regular savings deposits include "Isave", "Tagumpay", "Maagap" and "Pangarap" savings which earn annual interest ranging from 1.5% to 6.0% and 1.5% to 6.0% in 2016 and 2015, respectively. Special savings deposits includes "Earnmore" savings. This account earns interest ranging from 1.75% to 3.0% and 1.8% to 3.0% in 2016 and 2015, respectively.

Details of interest expense on deposit liabilities follow:

	2016	2015
Savings deposit	₱22,368,008	₱15,659,613
Special savings deposit	11,279,282	7,786,275
Demand deposit	12,670	1,170
	₱33,659,960	₱23,447,058

BSP Circular No. 832 requires 8.0% reserve requirement for thrift banks. Available reserves (which formed part of Due from BSP balance) as of December 31, 2016 and 2015 amounted to ₱156.0 million and ₱106.7 million, respectively (Note 6).

As of December 31, 2016 and 2015, the Bank is compliant with the applicable reserve requirements.

14. Bills Payable

The composition of and movements in this account follow:

	2016	2015
Face value		
Balance at beginning of year	₱490,000,000	₱260,000,000
Availments	630,000,000	490,000,000
Principal payments	(422,320,000)	(260,000,000)
Balance at end of year	697,680,000	490,000,000
Unamortized transaction cost		
Balance at beginning of year	2,894,118	—
Availments	2,424,382	3,269,142
Amortization	(1,708,386)	(375,024)
Balance at end of year	3,610,114	2,894,118
Carrying value	₱694,069,886	₱487,105,882

Local banks

These are promissory notes from various local banks with term of one year obtained for working capital requirement of the Bank with annual interest rates ranging from 3.0% to 4.0% and 4.2% to 5.0% in 2016 and 2015, respectively.

International Finance Corporation (IFC)

On December 16, 2015, the Bank entered into a Loan Agreement (Agreement) with IFC for the availment of loan amounting to ₱160.0 million (the Loan). The purpose of the loan is to provide funds to be used by the Bank for financing its lending operations to small and medium-sized enterprises and microfinance entities. The note bears a Philippine fixed base rate of 6.6%, inclusive of 2.7% spread, and has a tenor of seven years. The principal of the note is repaid semi-annually.

Borrowings from IFC contain the following embedded derivatives:

- a. Prepayment option which allows the Bank to redeem the loan (or portion of the loan not less than ₱45.0 million) prior to respective maturities; and
- b. Cross currency swap which allows the parties to exchange interest payments and principals denominated in different currencies (in USD and Philippine Pesos).

The Bank assessed that these embedded derivatives are clearly and closely related to the host bond instruments, since their redemption price approximate the bonds' amortized cost on redemption dates. Accordingly, these embedded derivatives were not accounted for separately from the host bond instruments.

Debt covenants

The Agreement covering the loan with IFC provide for restrictions and requirements which include the following negative and financial covenants, among others:

a. Negative covenants

Unless IFC otherwise agrees, the Bank shall not take action on the following, among others:

- Declare or pay any dividend or make any distribution on its share capital (other than dividends or distribution payable in shares of the Bank);
- Purchase, redeem or otherwise acquire any shares of the Bank or any option over them;
- Incur, create, assume or permit to exist any liability that is covered or ranks prior or senior to the Loan, except those that is in existence of the date of Agreement;
- Create or permit to exist any lien on any property, revenues or other assets, present or future, of the Bank subject to exceptions indicated in the Agreement;
- Enter into any transaction except in the ordinary course of business on ordinary commercial terms and on the basis of arm's-length arrangements;
- Enter into or establish any partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Bank's income or profits are, or might be, shared with any other person; or enter into any management contract or similar arrangement whereby its business or operations are managed by any other persons;
- Have any subsidiaries subject to exceptions indicated in the Agreement;
- Change its charter in any manner which would be inconsistent with the provisions of the agreement or any other transaction document, its financial year, or the nature or scope of its present or contemplated business or operations;
- Undertake or permit any merger, spin-off, consolidation or reorganization; or sell, transfer, lease or otherwise dispose of all or a substantial part of its assets, other than assets acquired

in the enforcement of security created in favor of the Bank in the ordinary course of its banking business, whether in a single transaction or in a series of transaction; and

- Prepay or repurchase any long-term debt (other than the Loan) subject to conditions indicated the agreement.

b. Financial covenants

The Bank agreed to prudently manage its financial position in accordance with sound banking and financial practices, applicable laws and the prudential standards of the BSP. To the extent that the banking regulation imposes financial requirements or ratios that are more stringent than the following, the Bank shall observe and comply with those more stringent requirements or ratios.

- a Risk Weighted Capital Adequacy Ratio of not less than 10.0%
- an Equity to Assets Ratio of not less than 5.0%
- an Economic Group Exposure Ratio of not more than 15.0%
- an Aggregate Large Exposure Ratio of not more than 400.0%
- a Related Party Exposure Ratio of not more than 15.0%
- an Open Credit Exposures Ratio of not more than 25.0%
- a Fixed Assets Plus Equity Participants Ratio of not more than 35.0%
- an Aggregate Foreign Exchange Risk Ratio of not more than 25.0%
- a Single Currency Foreign Exchange Risk Ratio of not more than 10.0%
- an Interest Rate Risk Ratio of not less than -10.0% and not more than 10.0%
- an Aggregate Interest Rate Risk Ratio of not less than -20.0% and not more than 20.0%
- a Foreign Currency Maturity Gap Ratio of not less than (i.e., more negative than) - 150.0%;
- an Aggregate Negative Maturity Gap Ratio of not less than (i.e., more negative than) - 300.0%.

The period of compliance with the above covenants commenced on March 31, 2016.

Microfinance loans amounting to ₱654.1 million were held as collateral for the above borrowings as of December 31, 2016 and 2015 (Note 8).

Interest expense on bills payable in 2016 and 2015 amounted to ₱21.5 million and ₱7.3 million, respectively. Amortization of bills payable amounted to ₱1.7 million and ₱0.4 million in 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the Bank is in compliance with the debt covenants.

15. Other Liabilities

This account consists of:

	2016	2015
Financial liabilities		
Accrued expenses	₱29,303,941	₱26,117,294
Accounts payable (Note 20)	10,435,444	24,963,025
Accrued interest payable	7,490,101	3,313,210
Deposit for stock subscription (Note 17)	5,201,900	—
Finance lease payable (Note 21)	1,678,324	—
Dividends payable	81,092	2,662,689
	54,190,802	57,056,218
Nonfinancial liabilities		
Accrued taxes	7,848,206	7,930,963
Others	3,729,748	3,382,092
	11,577,954	11,313,055
	₱65,768,756	₱68,369,273

Accrued taxes include withholding taxes and documentary stamps tax payable. Others include accruals for operating expenses and employee bonuses and benefits.

16. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond from reporting date:

	2016			2015		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱8,550,182	₱—	₱8,550,182	₱9,582,664	₱—	₱9,582,664
Due from BSP	156,044,613	—	156,044,613	106,715,506	—	106,715,506
Due from other banks	217,923,219	—	217,923,219	236,909,601	—	236,909,601
HTM investments	—	—	—	10,967,990	—	10,967,990
Loans and receivables - gross	2,486,948,750	381,520,973	2,868,469,723	1,672,139,766	209,500,875	1,881,640,641
Other assets:						
Refundable deposits	3,333,880	2,498,275	5,832,155	811,496	1,259,272	2,070,768
	2,872,800,644	384,019,248	3,256,819,892	2,037,127,023	210,760,147	2,247,887,170
Nonfinancial Assets						
Property and equipment - gross	—	184,090,529	184,090,529	—	165,443,152	165,443,152
Investment properties - gross	—	14,039,537	14,039,537	—	21,796,691	21,796,691
Intangible assets - gross	—	13,860,534	13,860,534	—	6,131,142	6,131,142
Retirement asset	—	75,590,128	75,590,128	—	45,280,571	45,280,571
Deferred tax asset	—	16,396,816	16,396,816	—	15,469,585	15,469,585
Other assets	8,135,357	24,608,694	32,744,051	14,551,099	8,602,250	23,153,349
	8,135,357	328,586,238	336,721,595	14,551,099	262,723,391	277,274,490
	₱2,880,936,001	₱712,605,486		₱2,051,678,122	₱473,483,538	

Less: Allowance for credit and impairment losses

(99,028,763)

(72,028,567)

(Forward)

	2016			2015		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Unearned interest			(P1,430,192)			(P984,702)
Accumulated depreciation and amortization			(59,875,574)			(47,001,259)
			P3,433,206,958			P2,405,147,132
Financial Liabilities						
Deposit liabilities						
Demand	P7,911,981	P-	P7,911,981	P4,145,437	P-	P4,145,437
Savings	1,889,086,472	2,642,382	1,891,728,854	1,224,960,209	792,764	1,225,752,973
Bills payable	574,640,000	119,429,886	694,069,886	330,000,000	157,105,882	487,105,882
Other liabilities						
Accrued expenses	28,915,239	388,702	29,303,941	26,117,294	-	26,117,294
Accounts payable	10,435,444	-	10,435,444	24,963,025	-	24,963,025
Accrued interest payable	7,490,101	-	7,490,101	3,313,210	-	3,313,210
Deposit for stock subscription	5,201,900	-	5,201,900	-	-	-
Finance lease payable	-	1,678,324	1,678,324	-	-	-
Dividends payable	81,092	-	81,092	2,662,689	-	2,662,689
	2,523,762,229	124,139,294	2,647,901,523	1,616,161,864	157,898,646	1,774,060,510
Nonfinancial Liabilities						
Income tax payable	28,093,464	-	28,093,464	27,930,999	-	27,930,999
Other liabilities						
Accrued taxes	7,848,206	-	7,848,206	7,930,963	-	7,930,963
Others	3,729,748	-	3,729,748	3,382,092	-	3,382,092
	39,671,418	-	39,671,418	39,244,054	-	39,244,054
	P2,563,433,647	P124,139,294	P2,687,572,941	P1,655,405,918	P157,898,646	P1,813,304,564

17. Equity

Capital Stock

As of December 31, 2016 and 2015, the Bank's capital stock consists of:

	2016		2015	
	Shares	Amount	Shares	Amount
Common stock - P100 par value, 5,000,000 authorized shares				
Issued and outstanding				
Issued shares at beginning of year	2,813,611	P281,361,100	1,696,483	P169,648,300
Issuances of shares of stocks from settlement of subscriptions receivables	612,606	61,260,600	1,117,128	111,712,800
Issued and outstanding at end of the year	3,426,217	342,621,700	2,813,611	281,361,100
Subscribed	1,573,783	157,378,300	2,186,389	218,638,900
Subscription receivable		(30,083,000)		(91,343,600)
		P469,917,000		P408,656,400

Deposit for Future Stock Subscription

Deposit for future stock subscription pertains to total consideration received in excess of the authorized capital of the Bank with the purpose of applying the same as payment for future issuance of shares. On May 14, 2016, the BOD and stockholders approved the increase in authorize share capital. As of December 31, 2016, the Bank has not yet filed its application for increase in authorized capital with BSP and SEC. Deposit for future stock subscription of P5.2 million was classified under 'Other liabilities' as of December 31, 2016 in accordance with the requirements of SEC Financial Reporting Bulletin No. 006, as discussed in Note 2 to the financial statements.

Dividends

On April 9, 2016, the BOD approved the declaration of cash dividends amounting to ₱54.9 million or ₱11.0 per share to stockholders of record as of March 31, 2016.

On August 13, 2016, the BOD approved the declaration of cash dividends amounting to ₱35.0 million or ₱7.0 per share to stockholders of record as of August 16, 2016.

On April 11, 2015, the BOD approved the declaration of cash dividends amounting to ₱50.0 million or ₱10.0 per share to stockholders of record as of March 31, 2015. The BSP approved the dividend declaration on June 5, 2015.

On September 12, 2015, the BOD approved the declaration of cash dividends amounting to ₱50.0 million or ₱10.0 per share to stockholders of record as of August 31, 2015. The BSP approved the dividend declaration on November 24, 2015.

Subsequent to year end, the BOD approved the declaration of cash dividends amounting to ₱100.0 million or ₱20.0 per share to stockholders of record as of February 28, 2017.

Capital Management

The Bank's capital management aims to ensure that it complies with regulatory capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support and sustain its business growth towards maximizing the shareholders' value.

The Bank manages its capital structure and appropriately effect adjustment according to the changes in economic conditions and the risk level it recognizes at every point of time in the course of its business operations. In order to maintain or adjust for good capital structure, the Bank carefully measures the amount of dividend payment to shareholders, call payment due from the capital subscribers or issue capital securities as necessary. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

The determination of the Bank's compliance with the regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies which differ from PFRS in some respects. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel I.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.0%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interest (DOSRI);

- deferred tax asset or liability; and
- other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

Under BSP Circular No. 360, effective July 1, 2003, the capital adequacy ratio (CAR) is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this circular, thrift banks with up to ten branches and those with 11 to 50 branches are required to maintain a minimum capitalization of ₱300.0 million and ₱400.0 million, respectively.

The CAR of the Bank as of December 31, 2016 and 2015, as reported to the BSP, is shown in the table below (amounts in thousands):

	2016	2015
Tier 1	₱679,148	₱536,400
Tier 2	26,160	18,530
Total qualifying capital	705,308	554,930
Risk-weighted assets	₱3,404,373	₱2,398,635
Tier 1 capital ratio	20.0%	22.4%
Tier 2 capital ratio	0.7%	0.8%
CAR	20.7%	23.1%

As of December 31, 2016 and 2015, the Bank's CAR and capital is in compliance with the regulatory capital requirements.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios adopted by the BSP in supervising the Bank.

Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2016	2015
Return on average equity	28.2%	29.8%
Return on average assets	6.5%	7.4%
Net interest margin	37.4%	39.6%

18. Retirement Benefits

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), Rizal Bank, Inc. (RBI), CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties.

MERP and Hybrid Plan comply with the requirements of Republic Act No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120.0% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

Hybrid Plan provides a retirement benefit equal to 100.0% of the member's employer accumulated value (the Bank's contributions of 8.0% plan salary to Fund A plus credited earnings) and 100.0% of the Member's Employee accumulated value (member's own contributions up to 10.0% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100.0% of the Employee Accumulated Value in Fund A be less than 100.0% of plan salary for every year of credited service.

Total retirement expense in 2016 related to Hybrid Plan amounted to ₱0.3 million.

The latest actuarial valuation report covers reporting period as of December 31, 2016.

The maximum economic benefit of plan assets available is a combination of expected refunds from the plan and reduction in future contributions. The fair values of plan assets by each class as at the end of the reporting period follow:

	2016	2015
Cash and cash equivalents	₱84,962,628	₱61,798,339
Investments		
Government securities	96,048,267	69,388,408
Private bonds	4,254,267	–
Mutual funds	1,063,567	1,184,051
Receivables	15,442,172	16,030,225
Other assets	2,761,183	3,400,350
Fair value of plan assets	₱204,532,084	₱151,801,373

All plan assets do not have quoted prices in an active market except for government securities. Cash and cash equivalents are deposited in reputable financial institutions and related parties and are deemed to be standard grade. Mutual fund, loans and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk other than those in government securities which are of low risk.

The overall investment policy and strategy of the Bank's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2016	2015
Discount rates		
January 1	4.86%	4.46%
December 31	5.86%	4.86%
Future salary increases		
January 1	7.00%	7.00%
December 31	7.00%	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

	2016		2015	
	+100bps	–100bps	+100bps	–100bps
Discount rates	(₱18,988,891)	₱24,045,012	(₱19,943,813)	₱25,782,702
Salary rates	22,229,828	(18,062,771)	23,849,034	(19,052,024)

The Bank plans to contribute ₱54.0 million to the defined benefit retirement plan in 2017.

As of December 31, 2016 and 2015, the average duration of the defined benefit obligation is 18.8 years and 27.8 years, respectively.

Shown below is the twenty-five year maturity analysis of the undiscounted benefit payments:

	2016	2015
Less than 1 year	₱2,631,187	₱1,282,230
More than 1 year to 5 years	20,525,329	—
More than 5 years to 10 years	49,366,499	7,506,119
More than 10 years to 15 years	61,216,464	25,468,622
More than 15 years to 20 years	172,533,343	122,333,107
More than 20 years to 25 years	361,285,676	465,195,230

19. Income Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes presented as ‘Taxes and licenses’ in the statement of income.

Income taxes include final income tax which is paid at the rate of 20.0%. This is generally withheld on gross interest income from government securities and other deposit substitutes.

RA No. 9337, *An Act Amending National Internal Revenue Code* provides that the RCIT rate shall be 30.0%. Interest allowed as a deductible expense shall be reduced by 33.0% of interest income subject to final tax.

The law also provides for MCIT of 2.0% on modified gross income which is paid if determined to be higher than RCIT. The excess of the MCIT over the RCIT can be carried-over and applied against the RCIT liability for the next three years.

NOLCO is allowed as a deduction against the taxable income for RCIT purposes for a three-year period from the year of inception.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR expenses of the Bank amounted to ₱9.7 million and ₱9.9 million in 2016 and 2015, respectively.

Provision for income tax consists of:

	2016	2015
RCIT	₱79,991,979	₱69,135,403
Final tax	622,195	525,778
	80,614,174	69,661,181
Deferred	1,572,404	(2,149,764)
	₱82,186,578	₱67,511,417

Deferred tax recognized in other comprehensive income amounted to a benefit of ₱2.5 million and ₱2.1 million for the years ended December 31, 2016 and 2015, respectively.

Components of deferred tax assets - net are as follows:

	2016	2015
Deferred tax asset on:		
Allowance for credit and impairment losses	₱26,984,933	₱18,884,874
Unamortized past service cost	8,269,459	7,942,328
Accumulated vacation leave	4,718,199	3,467,754
Accumulated depreciation - investment properties	68,282	61,352
Accrued rent	116,610	-
	40,157,483	30,356,308
Deferred tax liability on:		
Retirement asset	22,677,038	13,584,171
Fair value adjustment on investment properties	1,083,629	1,302,552
	23,760,667	14,886,723
	₱16,396,816	₱15,469,585

The reconciliation between the statutory income tax and effective income tax follows:

	2016	2015
Statutory income tax	₱81,148,534	₱66,086,906
Income tax effects of:		
Nondeductible operating expenses	1,377,425	1,687,205
Interest income subject to final tax	(339,381)	(262,694)
Provision for income tax	₱82,186,578	₱67,511,417

20. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- post-employment benefit plans for the benefit of the Bank's employees; and
- entities under common significant influence (CARD-MRI entities).

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2015.

Remunerations of Directors and other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the BOD and senior management to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

The compensation of key management personnel included under 'Compensation and fringe benefits' in the statement of income follows:

	2016	2015
Short-term employee benefits	₱6,740,181	₱7,023,133
Post-employment benefits	3,252,704	2,508,263
	₱9,992,885	₱9,531,396

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Transactions between the Bank and its key management personnel meet the definition of related party transactions. Transactions between the Bank and its affiliates within the CARD MRI, also qualify as related party transactions.

Loans receivables

As of December 31, 2016 and 2015, the Bank has no loan outstanding that was granted to related parties.

Deposit liabilities, accounts receivable and accounts payable

The table below shows deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel and affiliates as of December 31, 2016 and 2015:

Category	December 31, 2016		
	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱5,315,336	These are savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Saving Deposits	₱16,670,080		
Withdrawals	(15,773,544)		
Interest expenses/payable	101,445		Pertains to interest on deposit liabilities
Directors' fees/payable	3,281,642	-	Pertains to per diem payments directors
Shareholders			
Deposit liabilities		₱66,051,921	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱460,854,096		
Withdrawals	(460,891,125)		
Interest expense/payable	1,564,229	-	Pertains to interest on deposit liabilities.
Accounts receivable		-	Share on expenses of transferred staff.
Charges	2,345,000		
Collections	(2,359,435)		
Accounts payable		960	Pertains to share on various expenses.
Charges	49,153,049		
Payments	(49,156,007)		

(Forward)

December 31, 2016

Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Other related parties*			
Deposit liabilities		₱444,052,879	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱1,500,956,165		
Withdrawals	(1,390,566,487)		
Interest expense or payable	7,930,956	-	Pertains to interest on deposit liabilities.
Accounts receivable			Training fees, seminars and meetings, and share of expenses shouldered by the Bank.
Charges	689,078	-	
Collections	(970,048)		
Accounts payable		151,177	Insurance premiums from members collected on behalf of CARD MBA and payments to CLFC for operating lease agreement.
Charges	75,735,681		Cost incurred from engaging CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Meetings and seminars' in the statement of income).
Payments	(78,872,188)		
Seminars and trainings expense	16,027,858		
Information technology	18,961,392		This represents information technology-related support services to the Bank including software maintenance of the Bank's CARD e-System, hardware maintenance, set-up of network and centers and technical support, among others and computer equipment leased from CLFC.
Travelling expense	7,704,731		This pertains to transportation equipment leased from CLFC.
Retirement Plan			Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 18)
Contributions	46,697,276		

**Includes CARD Bank, Inc., Rizal Bank, Inc., CARD MRI Information Technology, Inc., Responsible Investments for Solidarity and Empowerment, CARD MRI Development Institute, Inc., BotiCARD, Inc., CARD Leasing and Finance Corporation, CARD Mutual Benefit Association and CARD MRI Insurance Agency*

December 31, 2015

Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱4,418,800	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Saving Deposits	₱6,562,980		
Withdrawals	(3,324,557)		
Interest expenses/payable	23,357		Pertains to interest on deposit liabilities.
Directors' fees/payable	3,691,666	-	Pertains to per diem payments to directors
Shareholders			
Deposit liabilities		₱66,088,950	These are savings accounts of with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱397,850,659		
Withdrawals	(345,529,925)		
Interest expense/payable	2,125,046		Pertains to interest on deposit liabilities.
Accounts receivable		14,435	Share on expenses of transferred staff.
Charges	14,325		
Collections	(1,000)		
Accounts payable		3,918	Pertains to share on various expenses.
Charges	21,136		
Payments	(19,692)		

(Forward)

December 31, 2015			
Category	Amount/Volume	Outstanding Balance December 31, 2015	Nature, Terms and Conditions
Other related parties*			
Deposit liabilities		₱333,663,201	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱992,666,986		
Withdrawals	(713,324,210)		
Interest expense/payable	5,285,243		Pertains to interest on deposit liabilities.
Accounts receivable		280,970	Training fees, seminars and meetings, and share of expenses shouldered by the Bank.
Charges	186,198		
Collections	(9,908)		
Accounts payable		3,287,684	Insurance premiums from members collected on behalf of CARD MBA and payments to CLFC for operating lease agreement.
Charges	2,932,364		
Payments	(2,467,398)		
Seminars and trainings expense	13,004,218		Cost incurred from engaging CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Meetings and seminars' in the statement of income).
Information technology	10,033,585		This represents information technology-related support services to the Bank including software maintenance of the Bank's CARD e-System, hardware maintenance, set-up of network and centers and technical support, among others and computer equipment leased from CLFC.
Travelling expense	4,583,170		This pertains to transportation equipment leased from CLFC.
Retirement Plan Contributions	26,027,000		Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 18)

*Includes CARD Bank, Inc., Rizal Bank, Inc., CARD MRI Information Technology, Inc., Responsible Investments for Solidarity and Empowerment, CARD MRI Development Institute, Inc., BotiCARD, Inc., CARD Leasing and Finance Corporation, CARD Mutual Benefit Association and CARD MRI Insurance Agency

Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As of December 31, 2016 and 2015, the Bank is in compliance with the regulatory requirements.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. On October 8, 2010, BSP Circular No. 695 is issued to provide guidance on the definition of Related Interest.

As of December 31, 2016 and 2015, there were no loans, other credit accommodations and guarantees classified as DOSRI accounts under the existing regulations.

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions.

21. Lease Contracts

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses ranging from 3.0% to 10.0%. The lease contracts are for the periods ranging from one to ten years and are renewable upon mutual agreement between the Bank and the lessors such as CARD, Inc. and third-party lessors.

The future aggregate minimum lease payments under non-cancelable operating leases follow:

	2016	2015
Within one year	₱29,385,667	₱12,862,615
Beyond one year but not more than five years	38,508,229	48,293,966
	₱67,893,896	₱61,156,581

Rent expense (presented under ‘Occupancy and equipment-related cost’ in the statement of income) amounted to ₱37.5 million and ₱23.4 million in 2016 and 2015, respectively.

22. Notes to Statements of Cash Flows

Non-cash activities of the Bank consist of the following:

	2016	2015
Non-cash investing activities:		
Acquisitions of property and equipment on account	₱1,694,347	₱16,465,720
Sale of investment property on account	–	1,404,999
Acquisitions of intangible asset on account	–	31,850

23. Approval of the Release of Financial Statements

The accompanying financial statements were approved and authorized for issue by the Bank’s BOD on March 11, 2017.

24. Supplementary Information Required under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

The components of ‘Taxes and licenses’ in 2016 follow:

Gross receipts tax	₱51,574,946
Business permits and licenses	3,026,273
Documentary stamp tax	2,091,415
Real property tax	554,899
Others	1,829,722
	₱59,077,255

In 2016, withholding taxes remittances and withholding taxes lodged under ‘Other liabilities - Accrued taxes’ account follow:

Remittances:	
Withholding taxes on compensation and benefits	₱8,779,741
Expanded withholding tax	4,661,099
Final withholding tax on interest expense	3,926,848
	<hr/>
	₱17,367,688
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Accrued:	
Final withholding tax on interest expense	₱1,356,006
Withholding taxes on compensation and benefits	839,910
Expanded withholding tax	560,634
	<hr/>
	₱2,756,550
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Tax Cases and Assessment

The Bank has no outstanding tax assessment and/or legal case filed in court as of December 31, 2016.



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